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The Conference Board

A Survey of Chief Executives

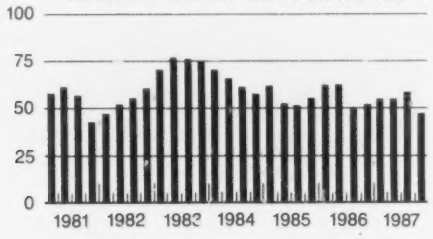
Business Executives' Expectations

A Quarterly Report from The Conference Board **Fourth Quarter 1987**

Business Confidence: A 5-Year Low

The Conference Board's composite *Measure of Business Confidence* fell sharply in the fourth quarter of 1987 following five quarters of relatively optimistic readings. The confidence measure dropped from 59 in the third quarter to 47 its lowest level since the first quarter of 1982. The steep decline reflected an erosion of confidence among surveyed executives concerning both current economic conditions and the outlook for the economy over the next six months.

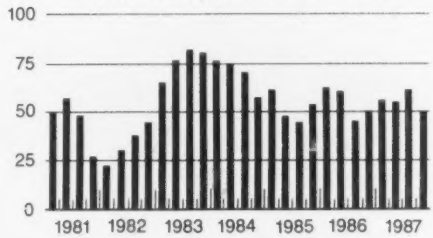
Measure of Business Confidence



Current Economic Conditions Worsen

The drop in the *Current Economic Conditions Index*—from a mildly optimistic 62 in the third quarter to a neutral 50 in the fourth quarter of 1987—reflects a growing divergence of opinion among executives about the current health of the economy. About 31% of executives thought the economy strengthened in the fourth quarter compared with the first half of 1987; about 30% believed conditions had deteriorated over the same period. On average, executives representing all nonmanufacturing industries, and those from 10 out of the 15 manufacturing industries surveyed, reported worsened conditions in their own industries.

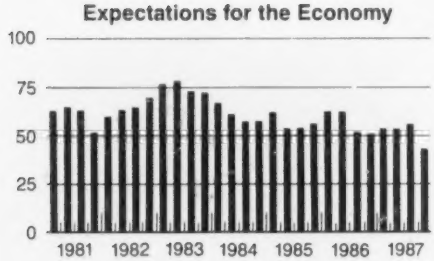
Current Economic Conditions



Expectations Turn Pessimistic

The decline in the *Business Expectations Index* to a seven-year low of 43—from 56 in the third quarter—reflects a sudden shift of sentiment in the wake of October's turbulent financial markets. In 13 out of 15 industries surveyed, executives revised their expectations downward both for the economy and for their own industries. The sudden pessimism suggests most executives believe that the stock market crash, persistent trade deficits, and budgetary uncertainties are increasing the likelihood of a recession in 1988. The pessimism among manufacturing-sector executives would probably be worse if strengthening in both domestic and foreign markets were not anticipated.

Expectations for the Economy



Economic Outlook: Regional Diversity

A wide divergence in sentiment among executives from different regions reflects different prospects for those regions based on national and international influences. On average, executives in states dominated by service firms—notably those of New England, Middle Atlantic, South Atlantic and Pacific—reported that economic conditions in the fourth quarter worsened in their state compared with the first half of 1987. In the agricultural, manufacturing, and mining dominated states of the Mountain and Central regions, more than 50% of executives reported improved economic conditions compared to six months ago.

Responding to financial market turbulence and widely anticipated consolidations, mergers and downsizing among services firms, executives in the New England, Middle Atlantic, and Pacific regions were more pessimistic than executives in the dominantly goods-producing (Central) regions. Many executives from all regions identified the dollar's foreign exchange rate and interest rates as the keys to the 1988 economic outlook.

Steven Malin

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Table 1: ECONOMIC CONDITIONS IN YOUR STATE COMPARED WITH SIX MONTHS AGO

Census Regions	Substantially Better	Moderately Better	Same	Moderately Worse	Substantially Worse
New England	0%	27	55	18	0
Middle Atlantic	4%	23	46	23	4
South Atlantic	5%	24	48	24	0
East South Central	0%	67	17	17	0
East North Central	4%	35	46	15	0
West North Central	8%	46	31	15	0
West South Central	0%	44	33	17	6
Mountain	5%	55	35	5	0
Pacific	0%	30	50	20	0

Table 2: ECONOMIC CONDITIONS IN YOUR STATE SIX MONTHS AHEAD

Census Regions	Substantially Better	Moderately Better	Same	Moderately Worse	Substantially Worse
New England	9%	9	36	45	0
Middle Atlantic	0%	12	35	42	12
South Atlantic	10%	10	48	33	0
East South Central	0%	75	25	0	0
East North Central	4%	19	46	27	4
West North Central	0%	31	31	38	0
West South Central	0%	44	56	0	0
Mountain	10%	60	25	5	0
Pacific	0%	30	30	40	0

Table 3: BUSINESS EXECUTIVES' EXPECTATIONS

	1984	1985				1986				1987			
	Nov.	Feb.	May	Aug.	Nov.	Feb.	May	Aug.	Nov.	Feb.	May	Aug.	Nov.
MEASURE OF BUSINESS CONFIDENCE	57	61	52	51	55	61	61	50	51	55	55	59	47
1. Current Economic Conditions vs. 6 Months Ago	57	62	48	45	53	63	61	44	50	56	55	62	50
2. Expectations for Economy, 6 Months Ahead	57	61	53	53	56	62	62	52	51	54	53	53	43
3. Expectations for Own Industry, 6 Months Ahead	58	61	55	54	56	59	60	54	53	56	56	58	48
4. Current Conditions in Own Industry vs. 6 Months Ago	55	57	51	47	53	57	54	47	50	58	57	61	55

Table 4: OWN INDUSTRY INDEXES

	Current Conditions							Expectations for Next 6 Months						
	1986			1987				1986			1987			
	May	Aug.	Nov.	Feb.	May	Aug.	Nov.	May	Aug.	Nov.	Feb.	May	Aug.	Nov.
Manufacturing	52	45	50	60	59	61	59	59	52	55	58	56	56	48
Food	50	50	57	60	58	48	60	59	56	63	58	64	62	63
Textiles	72	65	60	59	69	54	42	58	48	58	63	47	50	31
Apparel	40	36	50	58	63	75	55	60	45	54	50	56	54	50
Paper	59	63	69	69	55	79	72	68	59	62	56	59	60	51
Printing, Publishing	48	38	37	57	54	58	58	58	61	62	61	55	64	53
Chemicals	63	55	54	69	63	63	53	66	58	62	69	58	60	48
Rubber	58	44	56	81	64	50	50	67	58	66	50	50	44	31
Lumber, Furniture	60	59	62	67	54	65	75	67	56	62	50	54	55	56
Stone, Clay, Glass	57	57	44	53	58	41	52	55	48	48	53	58	48	40
Primary Metals	48	33	37	67	65	61	69	53	41	46	56	52	50	47
Fabricated Metals	52	40	47	61	54	62	63	55	51	51	56	53	53	51
Nonelectrical Machinery	44	32	41	57	58	63	63	57	44	51	54	57	60	50
Electrical Machinery	56	51	52	63	60	65	59	64	62	57	68	56	58	50
Transportation Equipment	49	43	51	55	52	62	39	56	48	53	50	52	53	34
Instruments	52	47	53	54	63	56	43	55	56	64	58	73	47	57
Mining	24	38	43	69	67	75	65	53	53	48	64	61	59	58
Construction	44	40	29	50	48	64	54	42	54	31	58	46	59	50
Transportation	58	54	55	58	52	60	59	68	61	58	54	52	65	50
Electric, Gas Utilities	48	49	54	49	57	63	55	58	55	53	49	57	61	54
Wholesale Trade	54	44	52	56	59	70	55	58	55	48	55	55	62	41
Retail Trade	54	51	52	54	52	53	47	63	59	48	52	54	61	48
Banking	55	46	47	47	49	50	48	59	51	45	50	49	57	43
Other Finance	76	63	67	73	50	51	41	61	52	60	62	52	53	47
Insurance	68	56	55	61	55	57	43	71	57	58	50	52	54	46
Business Services	62	52	50	51	61	60	55	63	53	55	54	64	65	48

The **Measure of Business Confidence** is the average of the scores for Questions 1,2, and 3. There are five reply options for each question. A score for each question is determined by assigning the following values to the replies and calculating the average: Substantially Better—100; Moderately Better—75; Same—50; Moderately Worse—25; Substantially Worse—0. The score for each question, and the **Measure of Business Confidence,** thus can range from 0 to 100.

The Conference Board

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This report is prepared by Steven Malin, Senior Economist, Economic and Business Environment Program. For additional information call (212) 759-0900.

5/2/88 R4105-37

A Survey of Chief Executives

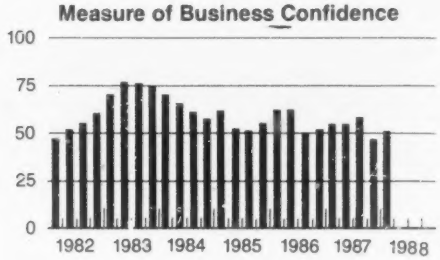
Business Executives' Expectations

Volume 12, Number 1 **First Quarter 1988**

A Modest Rebound in Business Confidence

Business executives' confidence recovered moderately in the first quarter of 1988, but remains shaken by last October's turmoil in financial and currency markets. The Conference Board's *Measure of Business Confidence* increased to 51 in the first quarter after falling to a five-year low of 47 in the fourth quarter of 1987. The moderate rise parallels a strengthening in consumer confidence in the first-quarter and recent upward revisions in most economic forecasts for 1988.

Measure of Business Confidence

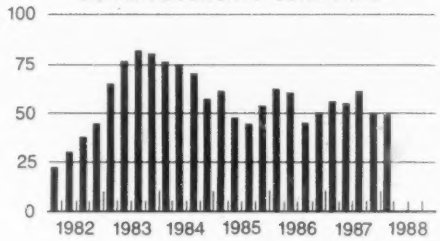


Expectations Brighten

All of the gain in business executives' confidence derives from increased optimism about economic prospects later in the year. Overall, the *Economic Expectations Index* rose to 50 in the first quarter, after tumbling to a 7-year low of 43 in the fourth quarter of 1987. However, only 28% of surveyed executives expect U.S. economic conditions to improve in the second and third quarters, while 25% think economic conditions will worsen.

A substantially larger proportion of executives (41%) anticipate stronger business conditions in their own industries later in 1988; 23% expect conditions to deteriorate. Optimism increased in 12 out of 15 manufacturing industries and in 8 out of 10 nonmanufacturing industries covered by this report, with the largest gains recorded in the durable goods industries.

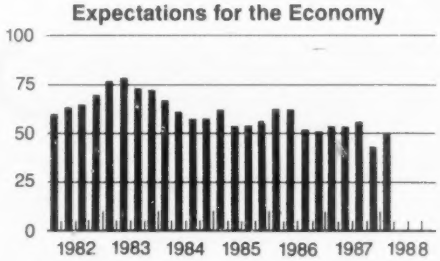
Current Economic Conditions



Current Conditions Worsen

Ironically, the improvement in executives' expectations coincided with deepening concern about current economic conditions. *The Current Conditions Index* slipped in the first quarter to a slightly pessimistic level of 49—from 50 in the fourth quarter of 1987. Executives' sentiments were deeply divided: Roughly 27% of respondents felt that economic conditions had deteriorated over the previous six months; 26% detected greater economic strength. However, few respondents reported a significant change in the business conditions currently facing their own industries compared to six months ago.

Expectations for the Economy



Labor Shortages Ahead?

The divergence in assessments of current versus future business conditions is reflected in respondents' expectations about employment growth. Nearly 4% of respondents expect employment in their industries to *increase* by at least 2.5% this year; another 16% anticipate employment *gains* of up to 2.5%. On the other hand, 4% of executives expect at least a 2.5% *drop* in their industry's employment, and 25% predict job *losses* of up to 2.5%. Employment prospects for the remainder of the year look strongest in the following industries: business services, instruments and primary metals. The poorest employment prospects are in banking, chemicals, gas and electric utilities, and insurance.

More than a third of survey respondents foresee greater difficulty finding qualified employees in the months ahead than they experienced in 1987. However, many executives pointed to cost containment, government regulation and industrial deregulation as the most serious problems facing their industries this year.

Steven R. Malin

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Table 1: EXPECTED CHANGE IN OWN-INDUSTRY EMPLOYMENT, 1988

	Increase More than 2.5%	*Increase 0.5% to 2.5%*	*No Change ±0.5%*	*Decrease 0.5% to 2.5%*	*Decrease More than 2.5%*
All industries	4%	16	51	25	4
Maufacturing	4%	17	55	21	3
Mining and Agriculture	16%	26	42	11	5
Services	3%	12	49	32	4

Table 2: PERCENT EXPECTING GREATER DIFFICULTY FINDING QUALIFIED EMPLOYEES IN CURRENT YEAR

	1982	*1983*	*1984*	*1985*	*1986*	*1987*	*1988*
All Industries	13%	8%	21%	22%	21%	19%	23%
Manufacturing	9	7	21	18	17	17	25
Nonmanufacturing	16	n.a.	22	24	25	24	21

Table 3: BUSINESS EXECUTIVES' EXPECTATIONS

	1985				*1986*				*1987*				*1988*
	Feb.	*May*	*Aug.*	*Nov.*	*Feb.*	*May*	*Aug.*	*Nov.*	*Feb.*	*May*	*Aug.*	*Nov.*	*Feb.*
MEASURE OF BUSINESS CONFIDENCE	61	52	51	55	61	61	50	51	55	55	59	47	51
1. Current Economic Conditions vs. 6 Months Ago	62	48	45	53	63	61	44	50	56	55	62	50	49
2. Expectations for Economy, 6 Months Ahead	61	53	53	56	62	62	52	51	54	53	56	43	50
3. Expectations for Own Industry, 6 Months Ahead	61	55	54	56	59	60	54	53	56	56	58	48	54
4. Current Conditions in Own Industry vs. 6 Months Ago	57	51	47	53	57	54	47	50	58	57	61	55	55

Table 4: OWN INDUSTRY INDEXES

	Current Conditions							Expectations for Next 6 Months						
	1986		*1987*				*1988*	*1986*		*1987*				*1988*
	Aug.	*Nov.*	*Feb.*	*May*	*Aug.*	*Nov.*	*Feb.*	*Aug.*	*Nov.*	*Feb.*	*May*	*Aug.*	*Nov.*	*Feb.*
Manufacturing	45	50	60	59	61	59	58	52	55	58	56	56	48	54
Food	50	57	60	58	48	60	47	56	63	58	64	62	63	48
Textiles	65	60	59	69	54	42	28	48	58	63	47	50	31	42
Apparel	36	50	58	63	75	55	57	45	54	50	56	54	50	57
Paper	63	69	69	55	79	72	73	59	62	56	59	60	51	54
Printing, Publishing	38	37	57	54	58	58	53	61	62	61	55	64	53	52
Chemicals	55	54	69	63	63	53	57	58	62	69	58	60	48	51
Rubber	44	56	81	64	50	50	43	58	66	50	50	44	31	50
Lumber, Furniture	59	62	67	54	65	75	50	56	62	50	54	55	56	44
Stone, Clay, Glass	57	44	53	58	41	52	54	48	48	53	58	48	40	50
Primary Metals	33	37	67	65	61	69	63	41	46	56	52	50	47	49
Fabricated Metals	40	47	61	54	62	63	61	51	51	56	53	53	51	59
Nonelectrical Machinery	32	41	57	58	63	63	70	44	51	54	57	60	50	62
Electrical Machinery	51	52	63	60	65	59	57	62	57	68	56	58	50	57
Transportation Equipment	43	51	55	52	62	39	57	48	53	50	52	53	34	48
Instruments	47	53	54	63	56	43	60	56	64	58	73	47	57	60
Mining	38	43	69	67	75	65	69	53	48	64	61	59	56	57
Construction	40	29	50	48	64	54	55	54	31	58	46	59	50	64
Transportation	54	55	58	52	60	59	58	61	58	54	52	65	50	52
Electric, Gas Utilities	49	54	49	57	63	55	56	55	53	49	57	61	54	60
Wholesale Trade	44	52	56	59	70	55	59	55	48	55	55	62	41	57
Retail Trade	51	52	54	52	53	47	42	59	48	52	54	61	48	53
Banking	46	47	47	49	50	48	50	51	45	50	49	57	43	52
Other Finance	63	67	73	50	51	41	47	52	60	62	52	53	47	56
Insurance	56	55	61	55	57	43	43	57	58	50	52	54	46	43
Business Services	52	50	51	61	60	55	54	53	55	54	64	65	48	53

The **Measure of Business Confidence** is the average of the scores for Questions 1,2, and 3. There are five reply options for each question. A score for each question is determined by assigning the following values to the replies and calculating the average: Substantially Better—100; Moderately Better—75; Same—50; Moderately Worse—25; Substantially Worse—0. The score for each question, and the **Measure of Business Confidence**, thus can range from 0 to 100.

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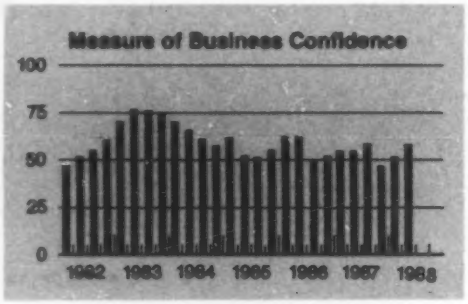
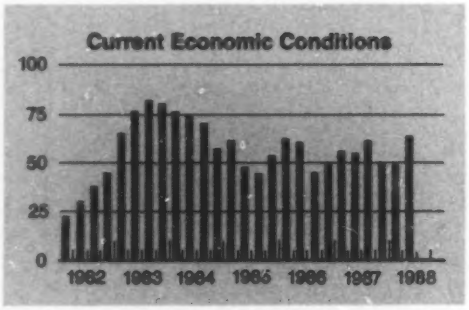
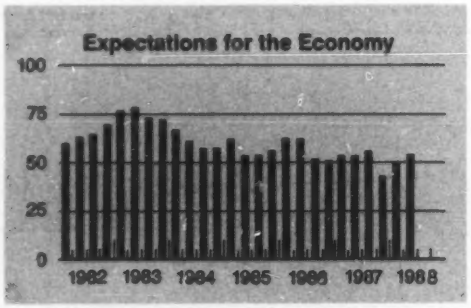
A Survey of Chief Executives

Business Executives' Expectations

Volume 12, Number 2 Second Quarter 1988







Confidence Recovers Fully

Business executives' confidence rebounded sharply in the spring, despite lingering reservations about the U.S. economic outlook. The Conference Board's *Measure of Business Confidence* climbed to 58 in the second quarter, up from 51 in the previous quarter and from 47, the five-year low, in the fourth quarter of 1987. With the strong second quarter gain, the *Confidence Measure* approximates its mildly optimistic pre-crash level of 59. Most surveyed executives, particularly in manufacturing, believe that the economy and their own industries are stronger now than before last October's turmoil. However, heightened sensitivity to economic and financial fluctuations continues to dampen enthusiasm about the prospects for the second half of 1988.

Current Conditions Much Improved

The *Current Conditions' Index* surged from 49 in the first quarter to 64 in the second quarter, its highest level since the third quarter of 1984. The strong advance appears to reflect the economy's virtually uninterrupted growth in output and employment in the half year since the October crash, as well as renewed financial market stability and the narrowing trade deficit. About 59% of surveyed executives think the economy strengthened in the first half of 1988; only 7% feel that economic conditions deteriorated. Most surveyed executives are also more upbeat about current conditions in their own industries, with 54% reporting improved conditions compared with six months prior; nearly 17% sense that conditions have worsened.

Expectations Improved, but Cautious

At 54 in the second quarter, the *Economic Expectations' Index* remained below its pre-crash level (56) for the third consecutive quarter. Compared with the first quarter, optimism increased among executives in 9 out of 15 manufacturing and in 5 out of 10 nonmanufacturing industries. Such ambivalence probably reflects the major cross-currents in the economy. The export-led resurgence in manufacturing activity is only partially off-setting deepening fears that rising inflation and interest rates will precipitate a recession by late 1988 or in 1989.

The Crash Had Minor Effects

Most executives believe that the economy, and their own industries and firms, shook off the effects of last fall's crash with little permanent damage. Although 27% of surveyed executives report that the crash harmed their companies' financial position, very few changed their long-term strategies. Executives that made adjustments generally opted for more conservative financial policies. Many executives report delaying or canceling marginally profitable projects, but relatively few felt that the long-term prospects for their industries or companies were damaged significantly.

Steven R. Malin

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Table 1: EFFECTS OF EXCHANGE RATE AND FINANCIAL MARKET FLUCTUATIONS, FIRST HALF OF 1988 (percent of companies)

	Changes in Value of Dollar	Changes in Value of Financial Assets
Very beneficial	9%	1%
Beneficial	38	3
Little or no effect	42	69
Harmful	10	24
Very Harmful	1	3

Table 2: EFFECTS OF EXCHANGE RATE FLUCTUATIONS BY INDUSTRY, FIRST HALF OF 1988

	Very Beneficial	Beneficial	Little or No Effect	Harmful	Very Harmful
All industries	9%	37	42	10	2
Durables Manufacturing	16%	58	22	3	1
Nondurables Manufacturing	12%	42	31	10	5
Services	5%	24	56	14	1

Table 3: BUSINESS EXECUTIVES' EXPECTATIONS

	1985			1986				1987				1988	
	May	Aug.	Nov.	Feb.	May	Aug.	Nov.	Feb.	May	Aug.	Nov.	Feb.	May
MEASURE OF BUSINESS CONFIDENCE	52	51	55	61	61	50	51	55	55	59	47	51	58
1. Current Economic Conditions vs. 6 Months Ago	48	45	53	63	61	44	50	56	55	62	50	49	64
2. Expectations for Economy, 6 Months Ahead	53	53	56	62	62	52	51	54	53	56	43	50	54
3. Expectations for Own Industry, 6 Months Ahead	56	54	56	59	60	54	53	56	58	58	48	54	55
4. Current Conditions in Own Industry vs. 6 Months Ago	51	47	53	57	54	47	50	58	57	61	55	55	62

Table 4: OWN INDUSTRY INDEXES

	Current Conditions							Expectations for Next 6 Months						
	1986	1987				1988		1986	1987				1988	
	Nov.	Feb.	May	Aug.	Nov.	Feb.	May	Nov.	Feb.	May	Aug.	Nov.	Feb.	May
Manufacturing	50	60	59	61	59	58	65	55	58	56	56	48	54	55
Food	57	60	58	48	60	47	63	63	58	64	62	69	48	58
Textiles	60	59	69	54	42	26	45	58	63	47	50	31	42	20
Apparel	50	58	63	75	55	57	57	54	50	56	54	50	57	46
Paper	69	69	55	79	72	73	66	62	58	59	60	51	54	60
Printing, Publishing	37	57	54	58	58	53	54	62	61	55	64	53	52	48
Chemicals	54	69	63	63	53	57	70	62	69	58	60	48	51	57
Rubber	56	61	64	50	50	43	50	66	50	50	44	31	50	54
Lumber, Furniture	62	67	54	65	75	50	64	62	50	54	55	56	44	56
Stone, Clay, Glass	44	53	58	41	52	54	65	48	53	58	48	40	50	55
Primary Metals	37	67	65	61	69	63	76	48	56	52	50	47	49	53
Fabricated Metals	47	61	54	62	63	61	67	51	58	53	53	51	59	52
Nonelectrical Machinery	41	57	58	63	63	70	73	51	54	57	60	50	62	52
Electrical Machinery	52	63	60	65	59	57	58	57	68	56	58	50	57	51
Transportation Equipment	51	55	52	62	39	57	70	53	50	52	53	34	48	54
Instruments	53	54	63	56	43	60	58	64	58	73	47	57	60	42
Mining	43	69	67	75	65	69	60	48	64	61	59	58	57	46
Construction	29	50	46	64	54	55	52	31	58	46	50	50	64	54
Transportation	55	58	52	60	59	58	67	58	54	52	65	50	52	55
Electric, Gas Utilities	54	49	57	63	55	56	61	53	49	57	61	54	60	59
Wholesale Trade	52	58	59	70	55	59	61	48	55	55	62	41	57	54
Retail Trade	52	54	52	53	47	42	45	48	52	54	61	48	53	57
Banking	47	47	49	50	48	50	60	45	50	49	57	43	52	53
Other Finance	67	73	50	51	41	47	38	60	62	52	53	47	56	50
Insurance	55	61	55	57	43	43	50	58	50	52	54	46	43	56
Business Services	50	51	61	60	55	54	64	55	54	64	65	48	53	54

The **Measure of Business Confidence** is the average of the scores for Questions 1,2, and 3. There are five reply options for each question. A score for each question is determined by assigning the following values to the replies and calculating the average: Substantially Better—100; Moderately Better—75; Same—50; Moderately Worse—25; Substantially Worse—0. The score for each question, and the **Measure of Business Confidence**, thus can range from 0 to 100.

The Conference Board

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ATTENTION PC USERS: All data in this publication plus extensive government statistics are available for downloading to your PC. For more information, contact Linette Waters at (212) 759-0900.

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